

IRS TAX TIP 2002-32

EARNED INCOME TAX CREDIT AVAILABLE FOR WORKING TAXPAYERS

Working parents earned it. Don't forget to claim it, says the Internal Revenue Service. The Earned Income Tax Credit lowered federal tax liabilities for 19 million lower-income working parents by more than \$31 billion last year.

To qualify for the EITC, taxpayers must have earned income during the year. Married taxpayers who file a joint return may qualify if at least one spouse has earned income. Earned income includes all income from self-employment and wages, even though some wages may not be taxable. Nontaxable earned income includes employee contributions to 401(k) plans and cafeteria plans, certain meals and lodging provided by the employer, and employer-provided benefits, such as for dependent care, adoption, and education.

Some taxpayers may be eligible to claim the EITC for the first time, especially if there were changes in the family such as a new child, divorce or decrease in earnings during the past year.

Working parents with incomes under \$32,121 can generally claim the EITC and get a credit up to \$2,428 for one qualifying child and up to \$4,008 for two or more qualifying children. To be a qualifying child, the child must meet age, relationship, and residency tests.

Taxpayers who are at least 25 years of age but under age 65, do not have a qualifying child and whose 2001 earnings were less than \$10,710 may qualify for the EITC of up to \$364.

All taxpayers must meet certain rules to claim the EITC. The taxpayer:

- Must have a valid SSN issued by the Social Security Administration (SSA);
- Cannot file as "married filing separately;"
- Generally, must be a U.S. citizen or resident alien all year;
- Cannot file Form 2555, "Foreign Earned Income," or Form 2555-EZ, "Foreign Earned Income Exclusion;"
- Cannot have investment income in excess of \$2,450; and
- Cannot be a qualifying child of another person.

The IRS Web site at www.irs.gov and tax instruction booklets contain more information on this credit. Publication 596, "Earned Income Credit," is available from the Web site under the Forms and Publications Finder or by calling 1-800-TAX FORM (1-800-829-3676).

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